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FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 9637

C O N F I D E N T I A L KINSHASA 7811

E.O. 11652: XGDS-2

TAGS: EFIN, CG

SUBJECT: ZAIRE'S BALANCE OF PAYMENTS

REF: (A) KINSHASA 7572; (B) LUBUMBASHI A-37

1. REF (A) TOOK ISSUE WITH A WASHINGTON-PRODUCED PROJECTION OF ZAIRE'S BOP SITUATION. WE ARGUED THAT ESTIMATES OF A 1976 BOP DEFICIT FOR ZAIRE WERE MISLEADING SINCE ZAIRE, LACKING SIGNIFICANT FOREIGN EXCHANGE RESERVES, CAN NOT FINANCE A LARGE DEFICIT AND WOULD HAVE TO CUT IMPORTS. WE ESTIMATED THAT THE GAP BETWEEN ZAIRE'S FINANCIAL ABILITY TO IMPORT AND ITS MINIMAL NON-PROJECT-RELATED IMPORT NEEDS (ESTIMATED AT \$1 BILLION) WAS \$150 MILLION.

2. IN THE LAST FEW DAYS WE HAVE OBTAINED AND REVIEWED BANK OF ZAIRE DATA ON ZAIRE'S BOP PERFORMANCE DURING THE FIRST SEMESTER OF 1976. THIS DATA INDICATES THAT ZAIRE'S BOP SITUATION IS MORE SERIOUS THAN WE HAD EARLIER THOUGHT. AS A RESULT IMPORTS HAVE BEEN CUT TO ABOUT 70 PCT OF THEIR 1975 LEVELS - AND 1975 WAS A YEAR IN WHICH CONSTRICTED IMPORTS WERE A PRINCIPAL CAUSE OF NEGATIVE ECONOMIC GROWTH. BASED ON THIS NEW DATA WE HAVE REVISED UPWARDS TO \$277 MILLION (SAY BETWEEN \$250-300 MILLION) THE GAP BETWEEN ZAIRE'S IMPORT NEEDS AND ITS AVAILABLE FINANCIAL RESOURCES.

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3. THE FOLLOWING TABLE PROVIDES OUR REVISED BOP ESTIMATES

IN MILLIONS OF DOLLARS:

	CREDIT	DEBIT	BALANCE
	-----	-----	-----
MERCHANDISE		940	1000 -60
COPPER	(590)	--	--
SERVICES	123	435	-312
OTHER TRANSPORT		(27)	(18) (9)
TRAVEL	(6)	(13)	(-7)
INV. INC.	(0)	(104)	(-104)
OTHER GOVT.,			
OTHER SERVICES	(90)	(300)	(-210)
TRANSFERS	42	104	-62
PRIVATE	(35)	(96)	(-61)
PUBLIC	(7)	(8)	(-1)
CURRENT ACCOUNT		1105	1539 -434
CAPITAL	239	82	157
GOVT.	(76)	0	(76)
ARREARAGES		0	(50) (-50)
IMF	(163)	(27)	(136)
IBRD	--	(5)	(-5)
TOTAL	1344	1621	-277

4. THESE FIGURES ARE BASED ON THE FOLLOWING FACTS, SOME OF WHICH REPRESENT NEW INFORMATION:

WE HAVE REVISED DOWNWARD TO 400,000 MT OF COPPER OUR ESTIMATE OF ZAIRE'S 1976 EXPORTS. THIS IS BASED ON INFORMATION THAT DURING THE FIRST SEMESTER, EMBARCATIONS OF ZAIRIAN COPPER (ZAIRE GETS PAID AT THE TIME OF EMBARCATION) TOTALED ONLY 188,000 MT, EVEN THOUGH SHIPMENTS FROM THE FACTORY TOTALED 232,338 MT. THE REMAINDER REPRESENTS INCREASED SHIPMENTS IN THE PIPELINE. (THE BANK OF ZAIRE DOCUMENTS PROJECT 1976 COPPER EXPORTS AT 340,000 MT BUT WE FEEL THIS FIGURE IS TOO LOW AND MAY REFLECT A DESIRE TO EXAGGERATE SOMEWHAT ZAIRE'S VERY REAL COPPER EXPORT DIFFICULTIES.) FIGURING AN AVERAGE PRICE OF \$0.67 PER POUND, WE ESTIMATE COPPER RECEIPTS AT \$590 MILLION. THIS REPRESENTS A SALE OF WIRE BAR BUT THIS YEAR GECAMINES WILL DECREASE SHARPLY THE AMOUNT OF COPPER IT WILL DELIVER IN THE WIRE BAR STATE. THE REFINING COSTS INCURRED

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IN TREATING COPPER ARE CHARGED BACK TO ZAIRE AS DEBITS ON THE SERVICE ACCOUNT. FOR THIS AND OTHER REASONS SERVICES ARE RUNNING ABOVE NORMAL AND WE HAVE ADDED \$35 MILLION TO OUR PREVIOUS ESTIMATES OF DEBITS ON SERVICES. WE ALSO TAKE INTO ACCOUNT THE FACT THAT COFFEE EXPORTS, BOOSTED BY LARGE SALES OF STOCKS IN THE FIRST SEMESTER OF 1976, WILL FALL BACK TO MORE NORMAL LEVELS DURING THE SECOND HALF OF THE YEAR.

5. THE FIRST HALF OF 1976 IS NOW HISTORY. USING THE BANK OF ZAIRE DATA AS A STARTING POINT, WE HAVE TAKEN THE ELEMENTS OF THE BOP TABLE IN PARA 3 ABOVE AND RECAST IT INTO FIRST SEMESTER AND SECOND SEMESTER 1976 ESTIMATED RECEIPTS AND EXPENDITURES. IN DOING SO, WE HAVE NOT BUILT IN A DEFICIT BUT HAVE SHOWN THE LIKELY LEVEL OF IMPORTS IF ADDITIONAL BOP SUPPORT IS NOT FORTHCOMING. THE FOLLOWING TABLE IS IN MILLIONS OF DOLLARS:

CREDITS	1ST 1/2	2ND 1/2	TOTAL
CURRENT	530	575	1105
CAPITAL	146	93	239

US:

PL-480	(7)	(6)	13
CCC	(15)		15
GECAMINES LOAN		(20)	20
CIP		(10)	10
EEC	(9)	(9)	18
IMF	(115)	(48)	163
TOTAL	676	668	1344

DEBITS

CAPITAL	64.5	17.5	82
GOVT.	(0)	(0)	
ARREARAGES	(50)	(0)	50

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LQB78	(15)	27	
IBRD	(2.5)	(2.5)	5
TRANSFERS	52	52	104
SERVICES (EXCEPT			
DEBT	172.5	172.5	34.5
SUBTOTAL	289	242	531
RESIDUAL	387	426	813
DEBT	30	(60)	(90)

MERCHANDISE 357 366 723

6. THE ABOVE ANALYSIS INDICATES AN ECONOMY SUFFERING BADLY FROM LACK OF SUPPLIES AND WITH LITTLE PROSPECT FOR RELIEF. IF ZAIRE MAINTAINS ITS PROJECTED SPENDING FOR SERVICES, TRANSFERS AND CAPITAL PAYMENTS, THERE WILL BE ONLY \$451.3 MILLION REMAINING TO MEET IMPORT REQUIREMENTS AND INTEREST PAYMENTS COMING DUE DURING THE SECOND HALF OF 1976: (A) IF ZAIRE PAYS ITS \$60 MILLION SECOND SEMESTER INTEREST, IMPORTS WILL BE CUT TO \$366 MILLION WHICH IS ROUGHLY 73 PCT OF WHAT WAS IMPORTED DURING THE COMPARABLE PERIOD IN 1975, (B) OF THESE AMOUNTS APPROXIMATELY \$75 MILLION MUST BE SPENT ON PETROLEUM IMPORTS DURING THE SECOND SEMESTER WHICH LEAVES ONLY \$376 MILLION AVAILABLE FOR DEBT SERVICE AND NON-OIL IMPORTS. SUCH A DROP IN IMPORTS WOULD CRIPPLE THE ECONOMY DURING THE SECOND SEMESTER AND LEAVE ZAIRE IN DIRE STRAITS DURING THE FIRST SEMESTER OF 1977. THESE FIGURES ARE SUPPORTED BY LOCAL BUSINESSMEN WHO REPORT THAT THEY ARE ABLE TO OBTAIN ONLY ABOUT HALF OR LESS OF THEIR IMPORT NEEDS. REF (B) PROVIDES A VIVID PORTRAIT OF THESE EFFECTS ON THE ECONOMIC LIFE OF SHABA REGION. IN KINSHASA FACTORY MANAGERS HAVE CONFIDED TO US THAT THEY HAVE BEEN FORCED TO IDLE MACHINERY AND WORKERS FOR LACK OF IMPORTS. IN SOME CASES THE WORKERS HAVE BEEN RETAINED TEMPORARILY TO MAINTAIN COMPANY GARDENS OR IN OTHER
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MAKE-WORK CAPACITIES. THIS EXPEDIENT, HOWEVER, CAN NOT AND WILL NOT BE CONTINUED IF SHRUNKEN IMPORTS CONTINUE TO HAMSTRING INDUSTRY. THE BIGGEST DANGER IS THAT, PRESSED ON ALL SIDES BY DEMANDS FOR FOREIGN EXCHANGE THAT CAN NOT ALL BE MET, THE BANK OF ZAIRE MIGHT BE PRESSURED TO RENEGE ON ITS FOREIGN EXCHANGE ARRANGEMENT WITH GECAMINES, THUS RUNNING THE RISK OF A CRITICAL BREAKDOWN IN COPPER PRODUCTION. INDEED, WE HAVE ALREADY COME FAR BEYOND THE STAGE WHEN LACK OF FOREIGN EXCHANGE FOR ESSENTIAL IMPORTS A TRANSPORT EQUIPMENT AND SPARE PARTS - FIRST BEGAN TO RESTRAIN AN EXPORT RECOVERY IN AGRICULTURE.
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